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ABSTRACT

This instructor guide for a unit on human resources in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 2 of learning--planning for a business in one's future. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: steps in hiring employees, procedures for developing a training program, management styles, methods for supervising and motivating employees, techniques for communicating with employees, alternatives for evaluating employee performance, and steps in developing a comprehensive employee compensation package. (KC)

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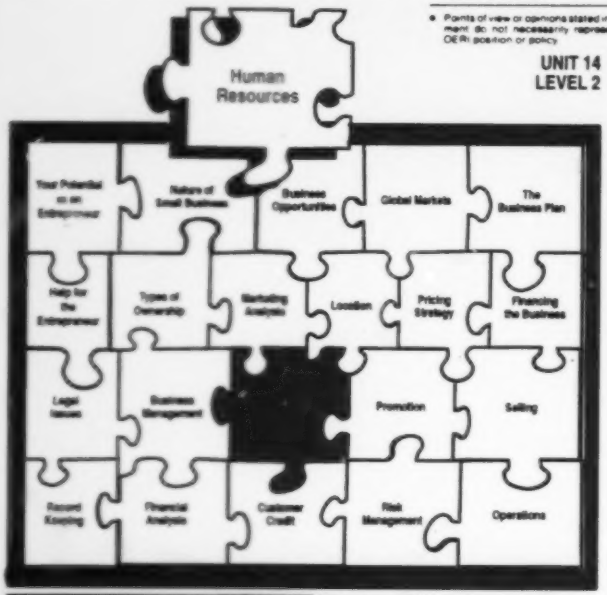

UNIT 14
LEVEL 2

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 302-14

Objectives:

- Identify the steps involved in hiring employees.
- Describe the procedures for developing a training program.
- Explain various styles of management.
- Describe methods for supervising and motivating employees.
- Describe techniques for communicating with employees.
- Discuss alternatives for evaluating employee performance.
- Identify the steps in developing a comprehensive employee compensation package.

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INSTRUCTOR GUIDE

Unit 14

Human Resources

Level 2

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

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Objectives	Teaching Suggestions
1. IDENTIFY THE STEPS INVOLVED IN HIRING EMPLOYEES	
What is job analysis?	Ask local entrepreneurs to provide job descriptions of different positions. Use these forms to explain job analysis.
What is the job description?	Gather and distribute handouts of various job descriptions.
How do you recruit new employees?	Ask students to give examples of methods entrepreneurs use to recruit new employees. Use an overhead or chalkboard to list the items mentioned by students and add others.
How do you make the final selection?	Design a chart that explains how entrepreneurs make their final hiring decisions. Briefly present important guidelines of the *Equal Employment Opportunity Act* (EEOC).
2. DESCRIBE THE PROCEDURES FOR DEVELOPING A TRAINING PROGRAM	
What is the importance of training?	Lead students in a discussion on employee training. Coordinate a discussion on the purpose of employee training, and what employers, and employees expect from these programs.
What are the procedures for developing a training program?	Invite a local entrepreneur to talk about procedures he/she uses for developing a training program.
3. EXPLAIN VARIOUS STYLES OF MANAGEMENT	
What are Theory X, Theory Y, and Theory Z?	Use an overhead or chalkboard to list the three types of management. Have students discuss a manager's behavior as it applies to each management style. Explain to students why participative management has become so popular and why many companies have adopted it.
4. DESCRIBE METHODS FOR SUPERVISING AND MOTIVATING EMPLOYEES	
What are the characteristics of a good supervisor?	Divide the class into two teams. Coordinate a contest between the teams. Students should list as many characteristics of good supervisors as possible.
How do you motivate employees to be productive?	Invite a guest entrepreneur to speak about methods he/she uses to motivate employees. Ask the speaker to differentiate between extrinsic and intrinsic motivators to help students better understand the concept.

Objectives	Teaching Suggestions
5. DESCRIBE TECHNIQUES FOR COMMUNICATING WITH EMPLOYEES	
What methods are available to communicate with your employees?	Lead a discussion that stresses the importance of two-way communication. Have students present their own ideas on how entrepreneurs can use two-way communication effectively. Next, have students list what items they believe should be included in a company handbook. Complete the list and organize the information to give students a clear understanding of how an employee handbook should look.
6. DISCUSS ALTERNATIVES FOR EVALUATING EMPLOYEE PERFORMANCE	
How do entrepreneurs evaluate employee's performance?	Repeat the above suggestion. Emphasize the importance of peer evaluation in assessing employee performance.
7. IDENTIFY THE STEPS IN DEVELOPING A COMPREHENSIVE EMPLOYEE COMPENSATION PACKAGE	
What does employee compensation include?	Briefly introduce the concepts of employee compensation, fringe benefits, and profit-sharing plans.
What are the steps in developing an employee compensation package?	Use an overhead or chalkboard to list the steps in developing an employee compensation package. Have students write the same information on individual note cards.
How do you select an employee benefit plan?	Refer to above suggestion. It is important to introduce students to the various compensation plans and some of their complexities.

MODEL ASSESSMENT RESPONSES

1. There are five steps involved in the hiring process: (1) developing job analysis; (2) formulating job description; (3) recruiting; (4) interviewing; and (5) making final decisions. (1) The job analysis is the process of studying the job to determine the tasks, responsibilities, skills, knowledge, and experience required by that job. (2) The job description is the written summary of the information collected in the job analysis. It summarizes the specific job requirements, including duties, responsibilities, the place of the job, the person's qualifications, skills, and experience. (3) Recruiting is the process of screening potential applicants in order to interview them. (4) Interviewing is the process of talking with potential employees on a one-to-one basis. During the interview, the employer tries to learn whether the interviewee would be a good fit with the position which needs to be filled. (5) Final selection decisions are made after all employees have been interviewed.

2. Developing a training program involves establishing a set of training goals (i.e., what knowledge employees are to accumulate and what kind of training should be provided). Next, the instruction method, type of training, instructor, and educational aids, other written materials, and audiovisual aids are selected. Timing, location, promotion, and cost-related issues should also be considered. Finally, evaluation and follow-up methods are considered.

3. There are three styles of management: autocratic, democratic, and participative. (1) Autocratic managers assign tasks to employees and indicates how tasks are to be performed. They may use negative or positive reinforcement. (2) The democratic management style focuses on assigning tasks to employees, but giving them the liberty to choose their own methods to accomplish them. (3) The participative management style is based

on a team approach that emphasizes quality of work, continuous improvement, and lifelong learning in the workplace.

4. There are various techniques used to supervise and motivate employees: (1) emphasize skills rather than rules; (2) set high standards for yourself and subordinates; (3) know your subordinates and try to determine what is important to each; (4) listen thoughtfully and objectively; (5) be considerate, courteous and consistent in your behavior and mood; (6) give directions in terms of suggestions or requests; (7) delegate responsibility to employees when appropriate; (8) have faith in your employees and show them you expect the best; (9) keep your employees informed about the business; (10) ask the employees for their suggestions and listen to them carefully; (11) make your employees feel important and valued; (12) give employees, when possible, a chance to take part in the decision making process; (13) inform your subordinates of their progress or lack of it in a positive way; (14) offer constructive criticism in private, and praise employees in public; (15) set a good example yourself; (16) be able and prepared to accept criticism; (17) set a good example; (18) be understanding with employees' problems; (19) allow employees freedom when it produces positive results.

   Motivating employees can be achieved through intrinsic and extrinsic motivation. Intrinsic motivation refers to self-satisfaction, personal reward, and professional accomplishment. Pay checks, bonuses, participation in profit-sharing plans, salary raise or fear of losing the job are extrinsic motivators.

5. Entrepreneurs evaluate their employees in different ways. One simple way is to use profits or sales as a performance measure. Another method consists of gathering information from suppliers, distributors, purchasers, and customers about how your employees perform their job. This can be an important source of evaluation information. In addition, you may want to talk to your employees to learn their perceptions about their colleagues work performance (peer evaluation).

6. In developing an employee compensation package, entrepreneurs: (1) define the job through a job description; (2) evaluate the job, this is, rank jobs by difficulty and responsibility; (3) price the job so that employees can compare their job with other similar jobs with other companies; (4) install the plan to determine how you will provide for individual pay increases; (5) communicate the plan to employees; and (6) appraise employee performance.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
Center on Education and Training for Employment, 1900 Kenny Road, Columbus, Ohio 43210-1090
(614) 292-4353, (800) 848-4815.

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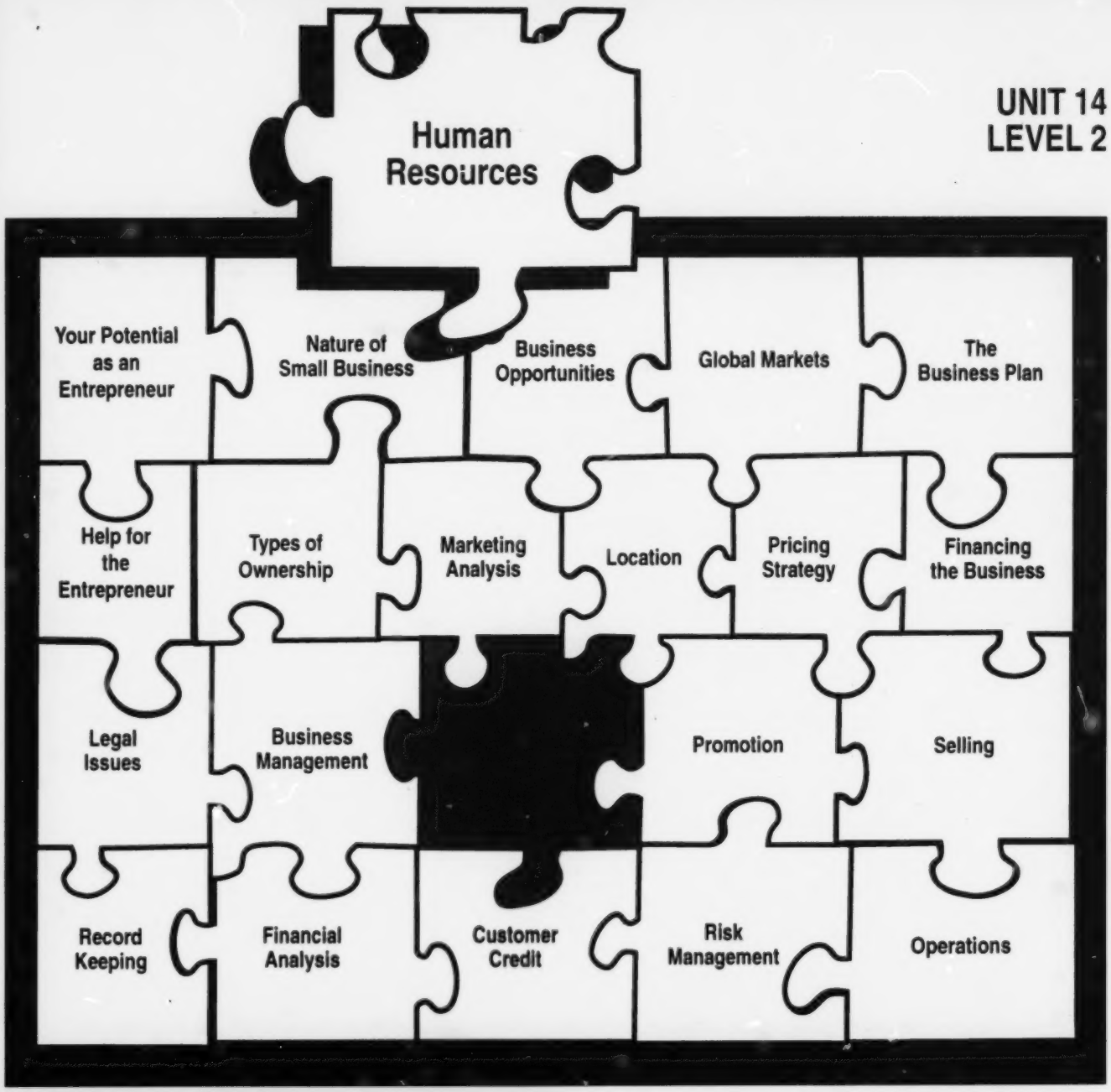

UNIT 14
LEVEL 2

PACE
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Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
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THE OHIO STATE UNIVERSITY

Research & Development Series No. 302-14

HUMAN RESOURCES

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1:

   - Define human resource management.
   - Explain the importance of human resource management as it relates to the success of a business.
   - Identify the various responsibilities that make up human resource management.
   - Describe the obligations employers have to employees.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Absenteeism
Audits
Deferred taxes
Employee benefit plan
Employee compensation
Fringe benefits
Human resources
Job analysis
Job description
Motivation
Performance appraisal
Supervision
Supervisor
Theory X
Theory Y
Theory Z
Training and Development
Turnover

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HUMAN RESOURCES

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- identify the steps involved in hiring employees,
- describe the procedures for developing a training program,
- explain various styles of management,
- describe methods for supervising and motivating employees,
- describe techniques for communicating with employees,
- discuss alternatives for evaluating employee performance, and
- identify the steps in developing a comprehensive employee compensation package.

WHAT IS THIS UNIT ABOUT?

Finding and managing productive employees is important to small business owners. Payroll and other employee expenses frequently make up one of the largest expenditures small business incur. In addition, the efforts of employees greatly contribute to customer satisfaction and repeat business. Without good customer relations, the business will have difficulty surviving, growing, and returning a profit.

In this unit you will learn about recruiting new employees and preparing them to be productive through the use of training. Once the new employees are working, you must supervise your employees, communicate with them, and motivate them. Then you will read about evaluating and compensating your employees. This unit is about managing your company's most vital asset—the *human resources*.

WHAT IS JOB ANALYSIS?

Do you know what it takes to be a productive employee? Mainly, it depends on the job. For example, a productive salesperson may not make a good bookkeeper and vice versa. Finding a productive employee requires that you study the job, determine what it consists of, and conclude what kind of

person it takes to successfully carry out the responsibilities.

Job analysis is the process of studying the job to determine what the tasks and responsibilities are and what knowledge, skills, and experience a worker needs. This is the first step in finding and hiring a new employee. If you don't know the job thoroughly and what it takes to be productive in this position, how will you know what kind of employee you want?

The job analysis consists of detailing all the job duties to determine exactly what tasks an employee must perform. Based on the tasks to be performed, you must then determine what qualifications are necessary. These qualifications may be organized into categories such as education, personal experience, physical skills, and communication skills. This information is invaluable for the recruitment of appropriately qualified candidates.

WHAT IS THE JOB DESCRIPTION?

The *job description* is the written summary of the information you collect in the job analysis. It is a comprehensive yet concise overview of the job and it profiles what kind of person you will want to recruit and hire. Ideally, it contains a general statement summarizing what the job involves, a list of the specific duties and responsibilities, the place of the job in the overall structure of the organization, to whom the person must report, and education and skills required. The job description should be no more than one to two pages.

HOW DO YOU RECRUIT NEW EMPLOYEES?

Recruiting involves obtaining qualified applicants for the job you want to fill. Knowing what kind of person you are looking for makes it much easier to decide where to look. Your job description will help you determine what recruiting sources to use.

There are many methods of contacting potential employees. The ones most commonly used by small business owners are as follows:

- Help-wanted signs
- Newspaper ads
- Word of mouth
- Competitors
- Employment agencies (public and private)
- Employee referrals
- Family and relatives
- Schools
- Trade journals
- Former employees

- Labor, social, and professional organizations

Each has its advantages and disadvantages. Figure 1 summarizes the positive and negative points of each of these methods.

Method	Advantages	Disadvantages
Help-Wanted Signs	Inexpensive and may get wide exposure to those who live near your business.	Doesn't describe job in any way and may bring in those with few qualifications.
Newspaper Ads	Many people are likely to see them; may describe job in an attractive way; may direct applicants to respond in person, by telephone, or by mail.	May not screen out unqualified persons. May bring in more applicants than you can efficiently handle.
Word of Mouth	Inexpensive	Doesn't guarantee any results. May bring in unqualified applicants.
Competitors	Applicants may already be trained and understand the business.	May cause bad feelings between you and your competitors.
Employment Agencies	Will screen applicants and send the most qualified.	Expensive, and may try to "sell" you someone you don't want.
Employee Referrals	Since your employees already know you and your business, they may bring in a qualified applicant. This is an inexpensive method.	Friend of employees may be recommended without regard to qualifications; may be difficult to turn down without hurt feelings.
Family and Relatives	Because they are related to you, they take more of an interest in your business. It is also an inexpensive method.	May not be qualified; may create conflict within the family.
Schools	Applicants may already be eager to work; usually inexpensive.	Applicants may lack experience.

Figure 1. Methods of Contacting Potential Employees

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HOW DO YOU MAKE THE FINAL SELECTION?

Once you have recruited several applicants, it is necessary to decide which one(s) to hire. The final selection is usually based on an analysis of the application form, how you feel about the person after an interview, and the recommendations of references.

The application form is an efficient means for gathering basic facts that can then be discussed further during an interview. For many small businesses, the application form is fairly short and simple. You may make up your own or you can buy standard forms at office supply business. Generally, application forms ask questions related to previous employment, education, and personal data. They should reveal whether the applicant has the minimal job requirements. If the applicant's qualifications look satisfactory, then it is time for the interview.

The interview is used to clarify information from the application; evaluate the applicant's appearance, composure, and communication skills; gather more information that would help you to decide if the applicant is well suited for the job; and tell the applicant more about the job. Because interviewing involves gathering so much information, it may be difficult to conduct, and you may feel concerned. It is important to remember that most applicants are nervous, too.

To conduct a good interview, consider the following suggestions:

- Review the application first.
- Prepare the questions you wish to ask in advance.
- Make the applicant comfortable and at ease.
- Don't dominate the conversation, guide it.
- Ask open-ended questions that allow the applicant to talk.
- Don't let the interview drag on unnecessarily, keep it businesslike.
- Know the *Equal Employment Opportunity Act* guidelines for types of questions that cannot be asked in an interview.

It is important to keep in mind that federal legislation prohibits discrimination in hiring based upon race, color, national origin, religion, sex, or age. Therefore, review the application form you use and the questions asked in the interview to ensure that they do not discriminate.

After you have interviewed all the applicants, you will have a good idea who is the best candidate for the job. You may want to hire the person at that time. However, there is one other step to take—checking the references. Many small business owners have found it wise to check an applicant's references. This allows you to verify the information you receive and to obtain another opinion of the applicant's qualifications. Most references can be checked over the telephone. Talking to former employers may provide you with valuable information. However it is important to remember that

some employers are not always willing to pass on negative information that may hurt an applicant's chances for a new job. If the applicant has been previously discharged from a job, it would be important to know why. In addition, it is helpful to know if a previous employer would rehire the applicant.

Although there are other methods for further evaluating the applicant's qualifications, most owners/managers are ready to make a hiring decision after comparing the job description to the applicant's qualifications and checking the applicant's references.

WHAT IS THE IMPORTANCE OF TRAINING?

The effectiveness and subsequent success of a small business are dependent not only on the ability of the owner but also on the knowledge and skills of its employees. To be competitive, an organization must strive constantly to improve the caliber of its work force. This process is most commonly referred to as the *training and development* of employees. Some of the intended results of *training and development* include:

- increased productivity
- decreased absenteeism and turnover
- decreased cost of materials and equipment due to errors
- more pay raises and autonomy (less supervision) for employees.

WHAT ARE THE PROCEDURES FOR DEVELOPING A TRAINING PROGRAM?

The depth and length of training is determined by the detail or level of skill involved in the position and the size of the company. Many businesses assign a coworker to train the new employee. Other companies may have a formal training program with a specific starting time. No matter how small a business might be, some training must occur. At the very least every new employee needs an orientation to the company.

The training program may be on-the-job or it may be classroom training. It may be a combination of both. You will also need to decide how formal or informal the training program is.

You will need to take a close look at the type of training needed. In developing a training program, you might want to consider the following:

- What is the goal of the training?
- What does the employee need to learn?
- What type of training will be conducted?
- What method of instruction will be used?
- What audio-visual aids will you use?
- What physical facilities will be needed?

- When will the training occur?
- Who will be the instructor?
- What materials will be selected?
- What will be the program cost?
- What checks or controls will be used?
- How, and to whom, should the program be publicized?
- How will the training be evaluated?

WHAT ARE THEORY X, THEORY Y, AND THEORY Z?

Management involves leading your employees so that the work is completed and your goals are accomplished. Hiring and training your new employees is important. However, this alone does not guarantee that your employees will be productive. To ensure that they will be productive is the responsibility of the manager. The manager's supervisory style must also be appropriate and compatible with employee needs.

Basically, there are three theories about management style. *Theory X* holds that the average worker dislikes work and will avoid it if possible; therefore, most people must be forced into getting the job done. In this *"autocratic style"* of management, the manager gives orders forcefully, and if necessary, threatens the employees. He/she will also give orders and explanations using "positive reinforcement," or praise if the employee deserves it.

Theory Y, on the other hand, proposes that people are willing to work hard and exercise self-direction if they feel the objectives are worthy. In this "democratic style" of management, the manager gives orders to the employee, but allows the employee to make decisions on how to get the job done.

An increasingly more popular approach to management is *Theory Z*. This theory suggests that the more involved the workers are with the success of the company the more productive they will be. This "participative management" style is based on a "team" concept that emphasizes quality, continuous improvement, and lifelong learning in the workplace.

Usually the most effective management style consists of some combination of the autocratic, democratic, or participative styles. Use the one that best suits your personality and business needs. However, for the entrepreneur to develop a loyal and productive employee over time, it is necessary to exercise some democratic principles.

WHAT ARE THE CHARACTERISTICS OF A GOOD SUPERVISOR?

The day-to-day contact with your employees (seeing to it that the work gets done) is called *supervision*. Managing is a broader concept. Supervision is a part of managing. Not only do you need to be an effective

manager, but also you need to be a good supervisor.

The supervisor's job is to see that the employees do their jobs, get the work done properly, and maintain a harmonious environment. To do this job, the supervisor must be a good communicator and motivator. In addition to this, the U.S. Small Business Administration offers the following suggestions for supervisors:

- Emphasize skills, not rules.
- Set high standards for yourself and your subordinates.
- Know your subordinates and try to determine what is important to each one.
- Listen thoughtfully and objectively.
- Be considerate and courteous.
- Be consistent in your behavior and mood.
- Give direction in terms of suggestions or requests.
- Delegate responsibility to subordinates when appropriate.
- Have faith in your employees and show them you expect the best.
- Keep your employees informed about the business.
- Ask employees for their suggestions and ideas, then listen carefully.
- Cive employees, when possible, a chance to take part in decisions.
- Make your employees feel important and valued.
- Inform your subordinates of their progress or lack of progress in a positive way.
- Offer constructive criticism in private.
- Praise your employees in public.
- Set a good example for your subordinates.
- Be able to accept constructive criticism yourself.
- Be understanding with employee problems.
- Allow employees freedom when it produces positive results.

HOW DO YOU MOTIVATE EMPLOYEES TO BE PRODUCTIVE?

Motivating your employees means learning to understand them and recognizing what is important to them. A paycheck is a motivator, but it takes more than a paycheck to

maintain productive and loyal employees. An employee wants meaningful and challenging work that ties in to his or her interests and ambitions.

Motivation comes from two sources. One source of motivation is called *extrinsic*. This is motivation that comes from outside the employee. A paycheck, chance for a raise, or fear of losing a job are examples of extrinsic motivators. Extrinsic motivation may be influenced by the small business owner.

The other sources of motivation comes from within the employee. This is called *intrinsic* motivation. The employees' desire to do a good job because of self-satisfaction and personal reward is intrinsic motivation. It is more difficult for the employer to control intrinsic motivation.

To motivate employees, the owner of a small business must satisfy the basic needs. A safe place to work is the first place to start. Preventing accidents in your business can be of great value to you since employee time will not be lost, workers' compensation will not need to be paid out, and the mental strain of worrying over employees will be minimized. You may want to implement an accident prevention program. You might contact the Red Cross and the Health Department for assistance in setting up a safety program. Also, many *insurance companies, law enforcement agencies, fire departments,* and in some cases the *Occupational Safety and Health Administration (OSHA)* will conduct safety checks, often called *audits*, of your workplace. These precautions are usually offered at little or no charge to the employer.

The following steps can be followed in setting up such a program:

- Look for hazards.
- Set rules.
- Establish preventive safety maintenance. Replace damaged items immediately. If something cannot be moved and is in a dangerous spot, paint it a bright color.
- Investigate for prevention. When an accident occurs, ask three questions:
  - — What happened?
  - — Why did it happen?
  - — What should be done?
- Outline actions to take in case of emergency.
  - — Enter emergency numbers into speed dial on company phone.
  - — Map route to nearest emergency care facility.
  - — Note personnel in facility who are certified in cardiopulmonary resuscitation (CPR) and their location in the building.

Occupational health should be stressed; employees should be made aware of the need for safety precautions. As a part of the safety program, you may want to hold company meetings to train employees in various aspects of safety and health. A Red Cross representative can present a first aid training

course. You may also want to have your employees trained in administering cardiopulmonary resuscitation (CPR). More important, you should make sure employees are aware of any occupational hazard that may occur specifically in your firm. If you are working with chemicals, for example, the employees should be trained in the first aid treatment for chemical burns.

In 1970, Congress enacted the *Occupational Safety and Health Act*. This act compels employers to provide their employees with safe and healthy places to work, as well as to maintain certain safety and health procedures.

You should contact your State Department of Labor and get information about federal and state health and safety regulations.

The Occupational Safety and Health Administration has the authority to enter and inspect a firm without any notice to the owner. Inspectors can issue citations upon finding violations—as much as $1,000 per violation. If a business does not respond and correct the cited violations, the business can be fined further and may face possible criminal prosecution.

Once the work environment is safe and employees' safety needs are ensured, it is time to take care of the employees' more personal needs. All employees need to be respected, needed, and appreciated. Your employees are human beings, not machines. It is vital to remember this and to do your best to provide for your employees' personal needs.

To motivate your employees, you need to meet both their basic and personal needs. This requires that you try to understand their personalities, as well as their intrinsic motivators. If you can help your employees realize their goals at the same time they contribute to your business, you have the key to providing the strongest form of motivation. The basic guideline is to treat them the way you would want to be treated.

It is hoped that your employees will take pride in working for your company and will feel that they are contributing to a successful business operation. Employees who feel as if they are part of a special group are more productive. Open communication is a sure path to healthy employer/employee relations. Below is a sample format to use for an interoffice memo. It is always important to check your grammar and spelling.

Recent advances in telecommunication technology have made it possible for members of organizations to communicate even more effectively. Voice mail systems are an excellent communication tool for sales or manufacturing-oriented businesses that rely on interrelated processes to produce their product or service. Messages can be efficiently stored and retrieved at a time that is convenient to the receiver. This will help avoid many unplanned breaks in the work flow.

WHAT METHODS ARE AVAILABLE TO COMMUNICATE WITH YOUR EMPLOYEES?

Communications are a key factor for business success. In order to benefit both the entrepreneur and the employees, business communications have to be two-way. The entrepreneur should provide a variety of

means to encourage employees to inform him/her of their opinions, concerns, and reactions. Many times, entrepreneurs are able to spot important problems in their businesses by listening carefully to what employees say. The days when you would make decisions without even considering consulting with your employees are gone. Today's business environment is becoming more complex and challenging. Entrepreneurs need the direct involvement of employees in the decision-making process in order to keep up with the day-to-day challenges that face their businesses.

This can be achieved only if employees take pride in working for the company and feel that they are contributing to a successful business operation. An important link between you and your employees can be realized through developing a *company handbook*. When employees begin working for your company, they need to be oriented. Employees can integrate themselves easily into the organization if they are quickly made aware of compensation packages, work hours, reporting structures, pay, fringe benefits (e.g., paid vacations, sick leave, holidays, etc.), the company's code of ethics, and other matters concerning the business. With a company handbook available, your newly hired employees can easily review these materials. Encourage them to discuss any questions they might have with you or with other employees. Following is a list of items that should be covered in an employee handbook:

- Welcome message

- Company description and history

- Procedures

  Working hours
  Where to report to work
  How to report time worked
  Rest periods
  Absence from work and how to report absences
  Employment records
  Pay periods
  Shift premium
  Safety and accident prevention
  Use of telephone
  Complaint procedures

- Fringe benefits

  Vacations
  Holidays
  Insurance
  Medical benefits
  Personal leave
  Military leave
  Jury duty
  Profit-sharing plan
  Unemployment compensation
  Bonuses

- Special services

  Credit union
  Education plans
  Employee purchases
  Company cafeteria
  Company socials events
  Sports teams or activities
  Company magazines

For large companies, publishing a newsletter is an important way of communicating with employees. Newsletters do not have to be expensive or elaborate in order to be worthwhile. The purpose of newsletters is to keep

your employees informed of ongoing activities in your organization. You will have to find someone on your company to coordinate the work involved with publishing the newsletter. This person will have to periodically gather facts from you and your employees. Take some time to plan on what articles and topics you need to communicate, who should be involved in coordinating the publishing process, and what are the related costs.

Another important communication method is the use of interoffice memorandum—or *memo*. Memos are brief notes, in writing, of some activity that needs to be communicated to other people involved in the business. Memos are an efficient means to convey messages quickly and accurately. Entrepreneurs should be able to write direct, clear, concise, explicit, error-free memos. Keep the memo short (one page or under) and keep your readers in mind when you write it. Outline your points simply, clearly, and in an organized fashion. Always keep a copy of memos you send to your employees. Never forget to fill in the date, your name, the name of the person you address it to, and the subject. The following is an example of a memo:

Date: January 2, 1993

To: Robert Smith

From: Mary Holmes

Subject: Sales meeting

Please mark your calendars to attend a sales meeting on January 9 at 10 a.m. in the conference room. We will discuss last year's sales performance and projections for this quarter.

This meeting is critical because we will decide whether to hire a new sales representative and to change one of our suppliers.

Another factor that affects employee-employer relationships is communication with the union. Although small businesses are generally less unionized than are large companies, there is not necessarily any relationships between the company size and unionization. It is important to understand what unions expect from employees and state and federal regulations related to union issues. Good agreements with unions can be reached only using efficient two-way communications with union leaders and members. (For more information on unions, turn to PACE Unit 13, Business Management).

HOW DO ENTREPRENEURS EVALUATE EMPLOYEE'S PERFORMANCE?

Evaluating the job performance of your employees is the most important factor in deciding what employees should receive bonuses, promotions, or other awards. It does not really matter whether awards have an intrinsic or extrinsic motivation value. *Performance appraisal* is the means by which you recognize and reward productivity.

Performance evaluation also provides a basis for constructive criticism and improvement. Use evaluation to provide feedback to employees and provide objective reasons for rewards. Carefully plan your evaluation methods. Schedule periodic meetings to let your employees know what future goals you

have and what their tasks are. Make them feel they play an active role in achieving the goals you set for the business. Reaffirm positive feedback and give employees the opportunity to bring up their problems, concerns, and opinions. Clearly respond to these and make notes to help yourself solve future problems.

There are a variety of methods to evaluate your employees. However, entrepreneurs should carefully consider the methods they choose. Even though profit or sales numbers are a quick and easy method to assess your employees' performance, there is a risk involved with these techniques. Keep in mind that some employees are not directly involved with generating profit and still can do a great job for the business. In these cases, entrepreneurs could consider other methods to evaluate job performance and distribute rewards accordingly. Talking to suppliers, distributors, customers, purchasers, and other people involved in doing business is a valuable source of information. However, be careful when directly inquiring information from employees about their colleagues' job performance. It is up to you to develop and maintain a healthy, professional, business environment in your company. This can be achieved only by ensuring that employees keep a positive attitude toward their coworkers.

It is certainly advisable to use information from your employees to complete evaluation forms. Employees have the right to know what the evaluation forms include and the criteria by which they will be evaluated. This way, they will know what kind of behavior is expected from them and what goals they need to achieve.

Keep in touch with your employees by revising evaluation forms regularly. This will also help you keep informed of the progress employees make and of problems which develop. Periodic evaluations give you the opportunity to spot and solve problems quickly in a positive fashion.

WHAT DOES EMPLOYEE COMPENSATION INCLUDE?

Employee compensation involves the total rewards or benefits your employees receive in return for their work. Although the paycheck is the most common form of compensation, it is just one of the ways for rewarding your employees. *Fringe benefits* such as paid vacations, insurance, profit-sharing plans, and pensions are considered compensation. You may also reward your employees through nonfinancial means such as personal satisfaction, recognition, prestige, and appreciation. Insurance and pensions make up the other two parts of employee compensations.

WHAT ARE THE STEPS IN DEVELOPING AN EMPLOYEE COMPENSATION PACKAGE?

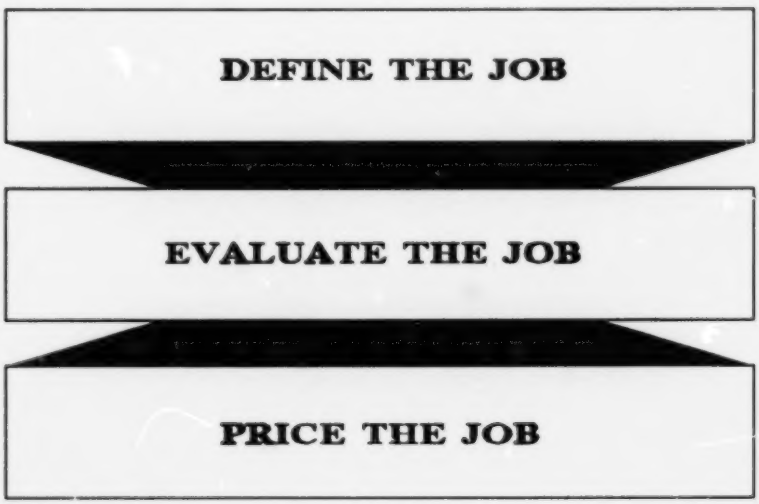
From a practical standpoint, the pay system you choose will depend on what you can afford to pay and what the competition is paying. If possible, however, you should try to develop a standardized pay system.

Employees who are compensated through an established pay system know that their pay

is determined in a reasonable and equitable manner; it is not determined by the whims of their supervisor. The U.S. Small Business Administration publication *Employees: How To Find and Pay Them* recommends a six-step procedure for establishing a pay system.

- **Communicate the plan to employees.** This may be done through personal letters or meetings.

- **Appraise employee performance under the plan.** This provides input for updating and improving the plan.



- **Define the jobs**. This is done with the job description.

- **Evaluate the jobs**. This means ranking the jobs by difficulty and responsibility.

- **Price the jobs**. This can be done by seeing what the going rate is outside the firm.

- **Install the plan**. This means determining how the plan will be administered to provide for individual pay increases.

To provide adequate employee benefits and services, you will need to consult with experts in the field. Employee benefit companies are very competitive. It is best to shop around. For example, you should contact several different insurance agents and ask them to meet with you to describe the group insurance plans available. You may want to have your employees hear the presentations to be sure the plan selected will suit their needs. Many of the insurance companies who have health plans may also offer a *tax-sheltered annuity* for those who qualify. Retirement programs or profit-sharing programs are other benefits which may result in great financial rewards for the long-term employee.

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HOW DO YOU SELECT AN EMPLOYEE BENEFIT PLAN?

Each employee benefit plan has disadvantages and advantages. Six commonly used benefit plans are discussed below. Table 2 compares the advantages of each plan.

The **Keyman Deferred Compensation Plan** is primarily for the employer who is limited in the amount of money available for employee benefit plans and who is interested in rewarding a very few key employees.

The **Thrift Plan** allows the employees to decide how much pay is to be withheld for investment. The employee may withdraw the money in the event of an emergency.

The **Keogh Plan** was designed for sole proprietors of a business or partners in a partnership agreement. Contributions may be up-to-10 percent of income. The investment profits are allowed to compound and are deferred from taxation until retirement, disability, or death.

You may choose to establish requirements before an employee can participate in a profit-sharing policy. It is common for employers to require the employee to be with the firm five years prior to being eligible to join the profit sharing program. Many entrepreneurs contribute to the program by matching the employee's contribution or making a standard contribution such as 10 percent of the employee's gross salary per year.

The **Money-Purchase Pension Plan** is primarily for entrepreneurs who want to provide a retirement income for employees based on a fixed dollar contribution by the company. This plan has advantages if the average age of the workers is 50 years or more.

The **Pension Plan** allows you to provide for your employees' retirement benefits. The pension investment can be computed at any time. Benefits are usually paid for life after retirement. These plans are expensive to install because an actuarial study (a statistical risk study) is necessary in designing the plan.

TABLE 2
COMPARISON OF EMPLOYEE–BENEFIT PROGRAMS

Points of Comparison	Keyman Deferred Compensation	Thrift Plan
Purpose	Motivate and retain key employees	Provide employee incentive through tax deferred savings.
Incentive value	High	Average
Contributions by company	Definite amount	Percentage of employee contribution can depend on profits
Contribution as percent of wages By company By employee	 No limit (usually 5-10 percent) NA	 Up-to-10 percent Up-to-6 percent
Benefits	Depends on performance of investment or agreement	Depends on performance of investment
Allocation of contribution and earnings	Not allocated until retirement unless otherwise agreed	Allocated in the account of each employee
Vesting (Employee's nonforfeitable share of employer's contribution)	All at retirement or as agreed	All after reasonable period of time (usually ten years)
Disposition of amounts forfeited (unvested portion)	Firm retains	Allocated to account of remaining employees
Ownership	Firm owns	Employee credited with contributed portion and vested amount
Method of payment of benefit	Lump sum or systematic withdrawal	Lump sum or systematic withdrawal
Receive payments before retirement	No, except as agreed	Yes
Tax advantage	If firm is corporation, yes; otherwise, no	Yes
Ease of Establishment Administration Understanding	 Easy Easy Easy	 Not too difficult Not too difficult Easy
Cost (legal, accounting, etc.) Establishing without prototype Establishing with prototype	 Under $200 Not applicable	 Under $200 No Cost
Average age of participants	Generally under 50 years	Under 50 years

TABLE 2 (Continued)

Points of Comparison	Keyman Deferred Compensation	Thrift Plan
Purpose	Provide employee incentive through participation in profits and tax deferred savings	Same
Incentive value	High	High
Contributions to company	Depends on earned amount	Depends on Profits
Contributions as percent of wages By company By employee	 10 percent to limit of $2,500 10 percent to limit of $2,500	 Up-to-15 percent Up-to-10 percent
Benefits	Depends on performance of investment	Depends on profits and performance investment
Allocation of contributions and earnings	Allocated to account of each employee	Allocated to account of each employee
Vesting (employee's nonforfeitable share of employer's contribution)	Immediate	All after a reasonable period of time (usually within 10 years)
Disposition of accounts forfeited (unvested portions)	No immediate vesting	Allocated to account of remaining employees
Ownership	Employee credited with entire balance in his account	Employee credited with his contributed portion plus any vested amount
Method of payment of benefits	Lump sum or systematic withdrawal	Lump sum or systematic withdrawal
Receive payments before retirement	Yes	Yes
Tax advantage	Yes	Yes
Ease of Establishment Administration Understanding	 Easy Easy Easy	 Not too difficult Not too difficult Easy
Cost (legal, accounting, etc.) Establishing without prototype Establishing with prototype	 Under $200 Under $25 Under $200	 Under $750 No cost Under $500
Average age of participants	Generally under 60 years	Under 55 years

Source: U.S. Small Business Administration. *Selecting Employee Benefit Plans.* Management Aid for Small Manufacturers No. 213. Washington, DC: U.S. Government Printing Office, n.d. (and out of print).

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

On a sheet of paper list the four major reasons that the interview is used. Discuss how each one contributes to a good selection decision.

B.

On a sheet of paper list and explain the three basic theories of management styles. State which management style would best fit your own personal style and why?

GROUP ACTIVITIES

A.

BRAINSTORMING

Divide the class into small work *teams* of four to six students. One member of each group should be appointed to lead the brainstorming. Also, one member of each team should record the important points on a flip-chart. Each *team* should determine the kind of questions that you, an entrepreneur, would ask a prospective employee. Remember that certain types of questions are illegal. As a group determine the type of job that you are hiring for. Ask those students that have interviewed for a job to contribute the questions they remember being asked. Be sure to discuss the reason for asking each question. As a result of the discussion, develop—

1. A list of questions to ask an applicant for a specific job.

2. Good reasons for asking each question. Include what each applicant's answer will tell the employer.

When discussions are complete, teams should join for an open discussion. Again using the flip-chart to record a comprehensive list of interview questions, discuss the reasoning for each selection.

B.

ROLE-PLAYING

Ask students to form teams of two. One person in the team is to be the interviewer and the other the interviewee. The interviewer must prepare 10 interview questions for a sales representative position for a local office supply chain. The interviewee is to prepare for the interview by thinking about questions that the interviewer might ask and things he/she wants the interviewer to know.

When the teams are prepared, they should sit in chairs facing one another and conduct the interview. When the interview is completed, each team member should make a brief written assessment from either the interviewer or the interviewee's viewpoint.

This exercise is repeated with the two team members switching roles. This time the person acting as interviewer should prepare ten questions for a cook position in a fast-food restaurant, and the person to be interviewed should prepare for the interview. When the interview is completed, each team member should make a brief written assessment from either the interviewer or the interviewee's viewpoint.

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CASE STUDY

Dieter Steinmiller owns and operates a small sausage retail and manufacturing plant. He has fifteen employees including his wife, son, and daughter, who all work full time. Dieter has always thought that employees must be supervised closely, or they will not be productive. Because of his attitude, Dieter's employees will usually sit and wait for his directions before doing their work. Because they know he is usually watching them, they are afraid to make mistakes which slows them down. Dieter understands this to mean that his employees have no direction or ambition of their own. This reinforces his negative attitude about the employees.

DISCUSSION QUESTIONS

1. Identify and describe the type of management style Dieter has.

2. Suggest alternative management style(s) that Dieter could use.

3. Discuss how intrinsic and extrinsic motivators could improve the morale at Steinmiller's Finer Meats. Suggest at least two motivators that may help Dieter improve morale.

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Identify the steps involved in hiring employees.
2. Describe the procedure for developing a training program.
3. Explain the various styles of management.
4. Describe various techniques that may be used to supervise and motivate employees.
5. Discuss various alternatives for evaluating employee performance.
6. Identify the steps in developing a comprehensive employee compensation package.

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PACE

Unit 1. Your Potential as An Entrepreneur
Unit 2. The Nature of the Small Business
Unit 3. Business Opportunities
Unit 4. Global Markets
Unit 5. The Business Plan
Unit 6. Help for the Entrepreneur
Unit 7. Types of Ownership
Unit 8. Marketing Analysis
Unit 9. Location
Unit 10. Pricing Strategy
Unit 11. Financing the Business
Unit 12. Legal Issues
Unit 13. Business Management
⇨ Unit 14. Human Resources
Unit 15. Promotion
Unit 16. Selling
Unit 17. Record Keeping
Unit 18. Financial Analysis
Unit 19. Customer Credit
Unit 20. Risk Management
Unit 21. Operations
Resource Guide
Instructor's Guide

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business